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THE QUEST FOR GROWTH IN THE GERMAN ORGANIC FOOD RETAIL  
MARKET: HISTORICAL TRENDS, CURRENT STRATEGIES, AND FUTURE  
OUTLOOK - THE ALNATURA CASE

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## **Abstract**

This paper aims to provide strategies for the organic supermarket chain “Alnatura” to shape the demand and its market share of the organic food & beverage (F&B) market in Germany within the next five years. Through the historic evolution and the current market assessment of Germany, compared to a benchmark country (US), as well as prospective trends in Germany, reasons and opportunities for market growth are evaluated. In addition, an industry attractiveness, competitor and company analysis is executed. Based on those findings and a conducted survey, suggestions to adjust Alnatura’s current business strategies are deduced and finally examined on its risk and feasibility.

**Keywords:** *Organic food and beverages, market demand, Germany, Alnatura*

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## **1. Definition of organic food and beverage products in Germany**

### **1.1 Legal environment**

The EU legislation has provided a standard definition of “organic production” for consumers and producers in the EU. Only producers that operate under the given standards are authorized to depict the EU certification on their products (*see appendix I*), the primary aim of which is for customers to be able to easily identify EU certified organic products.<sup>1</sup> Starting in 1991, the Council of the European Union has established certain regulations<sup>2</sup> with special requirements on organic production and labeling of organic products<sup>3</sup>, which have been expanded by supplement requirements until today. Ruiz de Maya et al. (2011) define organic F&Bs as goods “manufactured without the use of synthetic pesticides, herbicides, chemical fertilizers, growth hormones, antibiotics or gene manipulation”. The production process should be a combination of the “best environmental practices, a high level of biodiversity, the preservation of natural resources and the application of high-animal welfare standards” to fulfill the consumer demand for high quality products.

### **1.2 Consumer point of view**

To obtain more information on certain organic aspects relevant for some abstracts in this thesis, an on-line survey was conducted with more than 300 valid responses of participants who currently live or at least have lived in Germany. The data was analyzed with the statistics tool SPSS and the findings, such as correlations between variables, were used in order to draw implications for the thesis. For a detailed view of the survey, the analysis, findings and implications, please refer to *appendix 11*. To understand the German consumers’ opinion about the EU certification and organic F&Bs, the conducted survey included questions about their awareness and definition. It

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<sup>1</sup> [http://ec.europa.eu/agriculture/organic/downloads/index\\_en.htm](http://ec.europa.eu/agriculture/organic/downloads/index_en.htm)

<sup>2</sup> EEC N° 2092/91, EC N° 1804/1999 and EC N° 834/2007.

<sup>3</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:189:0001:0023:EN:PDF>

revealed that among all respondents, only 14% know that a uniform EU certification with strict production regulations identifying EU certified organic products exists. Nearly 45% do not recognize the certification logo, with an inverse relationship between age and awareness. Also, knowledge of the certification's meaning did not necessarily follow from respondents' awareness. Although the logo is mostly associated with the term "organic" and "produced by EU standards", it is also associated with being "natural", "regional" or "produced within the EU". These findings indicate a possible contrast between the actual certification significance and the consumer perception. When respondents were being asked about the meaning of "organic F&Bs", there seemed to be a common understanding that "all ingredients come from organic farming", but a lack of a more detailed conception of the term. This is aligned with other studies such as the "Green buying behavior: Global online survey", Euromonitor (2012), where Germans associate "organic products" in a similar matter (*appendix 2*).

## **2. Current situation and future outlook**

### **2.1 Market assessment in Germany and benchmark country USA**

#### **2.1.1 Current status in Germany**

##### **2.1.1.1 Demand**

According to a statistics release in 2014 of the "Bund ökologischer Lebensmittelwirtschaft" ("association of ecological food economics"), hereinafter BÖWL, the demand of organic F&Bs in Germany in 2012 accounted for € 7bn, which is around 4.4% of the total food industry, worth over €160bn<sup>4</sup> (*appendix 3*). Derived from "Organic Food Industry Profile: Germany" (2014), Germany accounts for around a third of the total organic F&B sector value in Europe, making it the strongest buyer in the market, followed by France, Italy, UK and Spain, respectively. For 2018, the organic F&B market is expected to reach a value of over \$12bn, which would account

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<sup>4</sup> <http://de.statista.com/statistik/daten/studie/209337/umfrage/umsatz-im-deutschen-lebensmitteleinzelhandel>

for a growth over 20% since 2013. For further details about the organic market segmentation and forecast, view the tables in *appendix 4*.

#### 2.1.1.2 Historical growth rate

Reports of Baker et al. (2004) and *BÖWL*<sup>5</sup> show that traditional agriculture in Germany was not always ecofriendly. Before the 1920s, new cultivation procedures and the development of artificial procedures led to rising negative environmental impacts. To counteract this, a “life reform movement” was formed, leading to the evolution of organic agriculture in 1924, which stressed greater protection of the environment and sustainability. However, it was not until the 1980s that the organic food demand began to power up, with the growth of an ecological movement comprised of nascent individual organic associations. The growth rate rose from 4% p.a. in the 1980s to 17% p.a. in the subsequent 10 years. In 1988, the associations joined together to form the “community ecological cultivation” (AGÖL) and defined a common minimal standard for organic farming, which was 1989 for the first time government-funded by the EU. In 2002, the AGÖL was replaced by the BÖWL, putting incremental pressure on conventional agriculture to lean towards the environmental friendly, more sustainable organic food production. From 2003-2007, organic sales further increased with a compounded annual growth rate (CAGR) of 14.3%, from € 2.8bn in 2003 to € 4.9bn in 2007. From 2009-2013, the organic food market value in Germany had a CAGR of 6.9%, reaching € 5.8bn in 2009 and € 7.5bn in 2013, as stated in the “German Organic Food Industry Profile” 2011 and 2014. For detailed figures see *appendix 5.1* and *5.2*.

#### 2.1.1.3 Characteristics of demand

A detailed study about the “integrative analysis behavioral and lifestyle-related factors for organic food consumption” (Hoffmann and Spiller, 2010) was conducted

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<sup>5</sup> [http://www.boelw.de/biofrage\\_01.html](http://www.boelw.de/biofrage_01.html)

over a year, with representative participants of the German population for organic and non-organic food buyers, in order to receive more information about their behavior and possible motives. The following table contains the differentiating variables (non-differentiating see *appendix 5.3*) of organic and non-organic users revealed in the study:

Differentiating Variables		
Segment	Characteristic	Description
Geographic	Regional influence	Southern German regions have higher organic purchases due to higher nutrition awareness in catholic southern regions and higher organic store “density of distribution” in the south.
Socio-Demographics	Gender	Women tend to pay more attention to organics than men.
	Age	Younger age groups consume less organic; older age groups consume more: 35-50y (36%); 51-64y (26%); 65-80y (20%).
	Education & Income	The higher the education and income, the more likely the consumption of organics.
	Physical Condition	Significantly more non-organic users are classified as “overweight” and even “adiposity” (BMI) than organic-users.
Behavior	Eating habits	More organic-users follow diets (e.g. vegetarian) and are “nurture information” engaged, thus more aware of healthy choices.
	Cooking habits	Organic-consumers tend to be better at cooking than non-organic consumers (of the latter, at least 10% do not cook at all).
Psycho-graphics/Attitude	Health perception	Differs significantly: Perceived health risk from genetically modified products is much higher for organic-users and they are more concerned with their health in general.

Factors for consumers to buy organic food are especially related to health and environmental aspects (Bartels and Hoogendam, 2011; Baker et al, 2004). Regular users and occasional users share those motives, although occasional users often trade off some organic products with non-organic substitutes when they still perceive those substitutes as healthy, e.g. “natural” products, (Midmorea et al, 2011). When comparing the relative strengths of attributes to buy organics, egoistic aspects to buy organics, e.g. for health benefits, are higher than “altruistic aspects such as animal welfare or environmental protection” (Kriwy & Mecking, 2011; conducted survey). Also, “price” serves as an indicator in the amount of consumed organics, which rises with the income

of consumers. Derived from the survey and other statistics<sup>6</sup>, reasons for not buying organic F&Bs range from the products being “too expensive”, “only of temporary fashion”, to “label/ certification distrust/ credibility lack” and thus “a waste of money”.

## **2.1.2 Current status in the US**

### **2.1.2.1 Demand**

Derived from the US “food retail industry profile” and “organic food industry profile” (2014), the organic F&B market for the United States in 2013 was around \$34 bn, which accounts for a little over 3% of the total US F&B retail market with approximate \$980 bn. On a global scale, the market in the US accounts for 45.8% (2013) of the total organic F&B market value. In 2018, the organic F&B market is expected to reach a value of over \$45bn, which would imply a growth of more than 34% since 2013, which is a 14% higher forecast increase than for Germany. For detailed information about the US demand and forecast, please consult *appendix 6*.

### **2.1.2.2 Historical growth rate**

According to Jaffee and Howard (2010), in the 70s, consumers were increasingly interested in a more sustainable food production process, and the first certifying agencies were established in order to set certain production standards. In 1990, federal legislation created national unified organic labeling standards and sales began to significantly grow, averaging around 20% each year since 1990, and around 17%-21% between 1997 and 2003, accounting for nearly 2% of the total US food sales. Although the government has since determined the labeling requirements, some of its statements and actions provide doubt to whether it actually believes in organic benefits. Boström and Klintman (2006) argue that public opinion has been the impetus behind more rigorous standards. High public pressure on the government for organic

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<sup>6</sup> <http://de.statista.com/statistik/daten/studie/173556/umfrage/gruende-fuer-den-verzicht-auf-bioprodukte>



regulations may thus account for the enormous growth rates. In 2004, organic F&B sales accounted for \$12bn, which grew to over \$ 23bn just 4 years later in 2008, at a rate of 20% per year, according to OTA (*appendix 7.2*). Derived from the “organic food industry profile: United States”, the latest organic food market value’s CAGR was around 8% (2009 to 2013), which can be reviewed in detail in *appendix 6.2*. For the detailed evolution of F&Bs in the US, please see *appendix 7.1*.

### 2.1.2.3 Characteristics of demand

Derived from Dairy industries international (2012), Nutraceuticals world (2014), Roberts (2011), Kareklas et al. (2014), Zepeda & Gould (2007) and Dettmann & Dimitri (2010), the typical organic consumer in the US is classified as following:

US Organic consumer profile		
Segment	Characteristic	Description
Socio-demo-graphics	Gender	Women tend to pay more attention to organics than men.
	Age	Organic importance in purchase behavior declines with rising age.
	Household status	Trend found that families with children (<18 years) seem to purchase organics more frequent.
	Education & Income	The higher the education and income, the more likely the consumption of organics; with increased frequency.
Behavior	Cooking habits	Organic-consumers tend to enjoy cooking a lot.
Purchasing Attitude	Egoistic factors: Healthier & Higher Quality	Most consumers consider organics healthier for themselves and their children than conventional F&Bs. This is linked to purchase motives such as avoiding persistent pesticides, antibiotics, hormones or GMOs.
	Altruistic factors: Environmental friendly	Although not as highly ranked as egoistic factors, altruistic factors such as “environmental friendlier than conventional products” are also among the reasons for purchasing organics.

These main characteristics were embedded in the process of considering plausible evolutions of the actual demand in Germany.

### 2.1.3 Identification of drivers of change in Germany

The following trends were derived from Euromonitor studies (2014) of “Consumer Lifestyles in Germany“ and “German consumers in 2020: A look into the

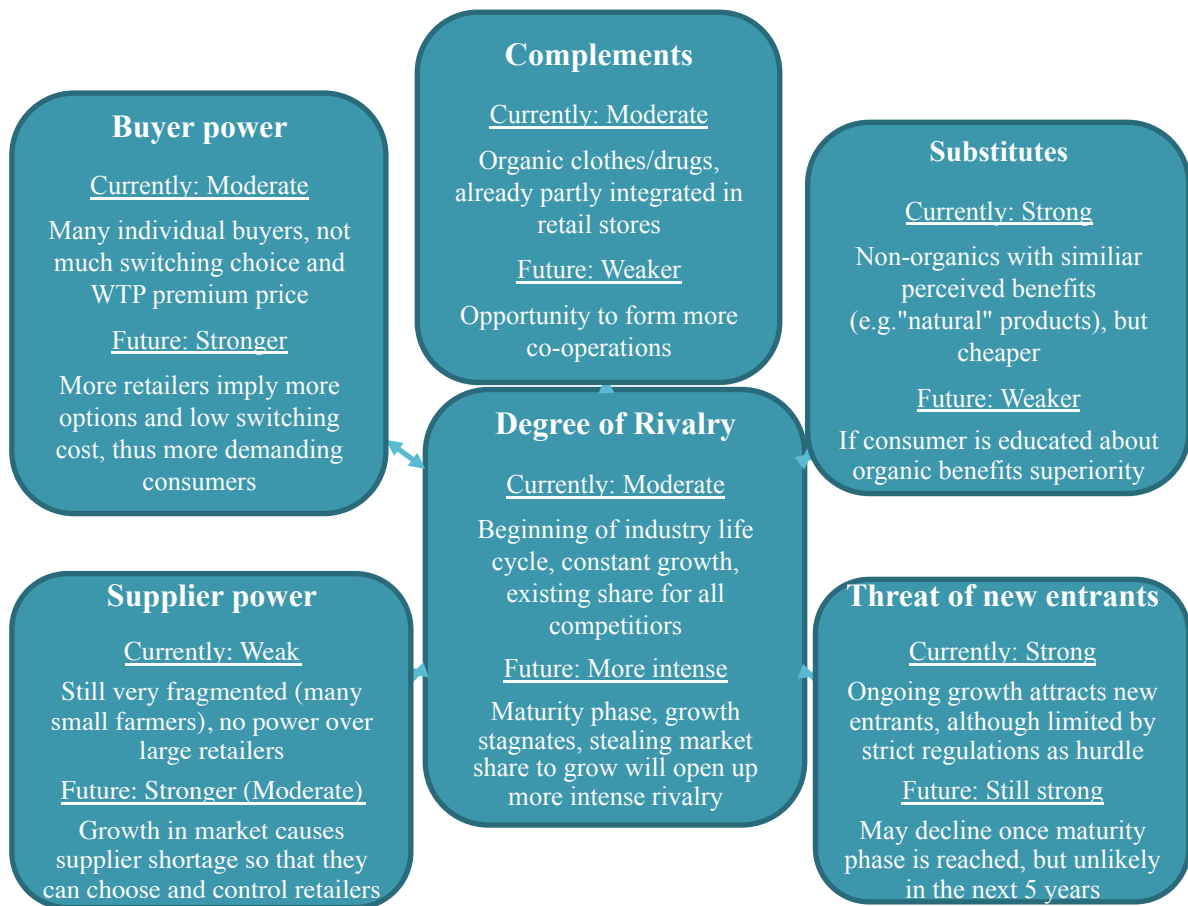
future“, Roland Bergers “Trendcompendium 2030” and Schulz’s (2014) “Population Dynamics in East and West Germany-Projections to 2050” and were used to understand the future conditions that the organic F&B market will have to operate in.

Future Trends in Germany		
Segment	Trend	Description
Demo-graphical	Shifts in age structure and arising challenges	Share of young and mid-aged population will drop while the share of “over 60 years old” will increase. This will lead to a broader social gap between young and old people.
	Rise in consumer expenditure & income	Euromonitor forecasts yearly growing annual disposable consumer income and expenditures (2014 to 2020).
	Growth in obesity problems	Over 23% of adults can be seen as “obese” and over 15% of children are overweight, with growing rates.
	Older parents, who spare no expenses for their children	Average age of women to have a child has increased to 35y and trend of only having one child rises. Thus, parents at later age are likely to be generous in spending & pampering kids.
Be-havioural	Young adults become organic purchasers	Ongoing hype about “green consumption”, including clothes, household energy and nourishment. Specifically shoppers under 30 years increasingly buy organic groceries.
	Eating habits alteration	Due to a reduced level of time availability of people during the day, it gets more common to eat quickly and to not cook at home. “Assembly cooking” is also on the rise, where people buy foods including recipe suggestion for its use.
	Baby boomers hitting 50, being aware of issues related to aging	Baby boomers who now have to take care of their parents are aware of the problems of aging, including insufficient retirement payments and expensive health care problems. When they retire, they will be likely “insist on quality of life and health” and ensure that they have the necessary money.
	Online shopping boom	There is a constant rise in shopping online, also for groceries.
Techno-logical and inno-vational	Rising smartphone use	More people have smartphones and increase their usage.
	Technology diffusion in developed countries will accelerate	Robotics, virtual realities and mobile-only internet users will arise in the next years. Accordingly, the “internet of things” is on the rise, pervading the aspects of private life by interconnecting all kind of objects with the internet.
	Global growing scarcity of resources	While resources get rare, water demand will increase ca. 40% until 2030. Raw materials (14 critical for EU) will run out.

### 3. Supply side

#### 3.1 Industry attractiveness: Competition in Germany

Derived from the “Organic Food Industry Profile: Germany” (2014), the following diagram depicts a summary of the current and future projections of different forces and their influencing factors in the retail market for organic F&Bs:



The underlying analysis indicates that the organic F&B retail industry is a very attractive and thus profitable market with potentially increasing rivalry in the next five years. The current small market coverage of organic foods compared to the overall foods market (4.4%), paired with the potential growth of the segment in the near future, provides further opportunities as well as possible changes, making the industry very dynamic and difficult to predict. For an advanced picture of all factors influencing the different forces, please access the detailed description and diagrams in *appendix 8*.

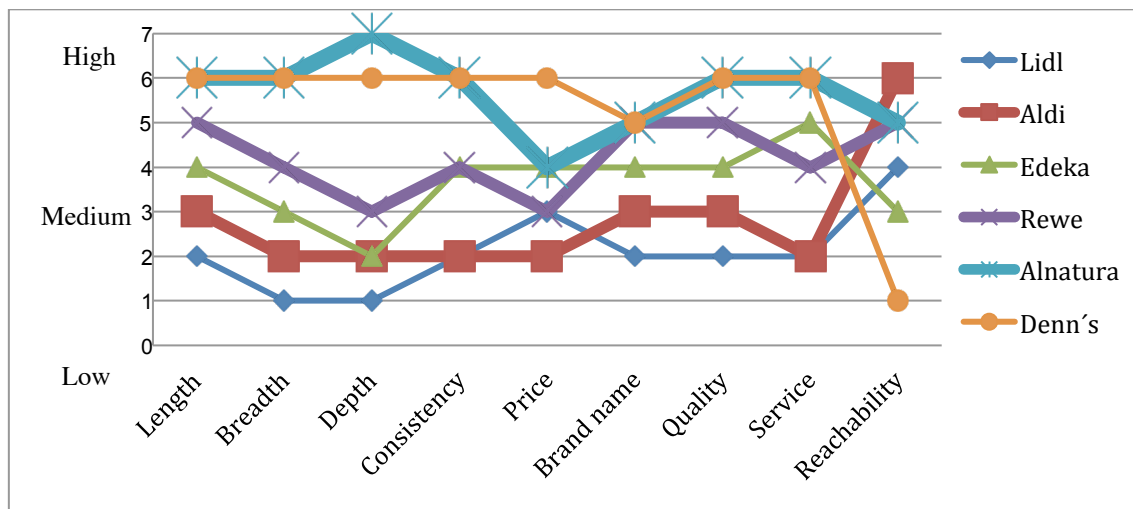
### 3.2 Key variables to compete in market

In the conducted survey, half of the participants classified as organic buyers were also asked to rank their most important factors when purchasing organic F&Bs in order to evaluate some of the key variables in retail and determine their relevance to compete in this market. It could be determined that “quality” was by far the most crucial

variable for the respondents, distantly followed by “reachability”, “price”, “assortment” (length, breadth, depth, consistency) and lastly the “brand name”. Another variable that can be used for differentiating oneself in the market is “service”.

### 3.3. Positioning

The key variables are used to define the positioning of the main incumbents of the organic market, based on the leading companies and main competitors of “Alnatura”. For further details of the composition of the positioning chart and the firms’ evaluations, please see *appendix 9*.



It can be deduced that there are three market incumbents that have a special positioning. Firstly, the discounter “Aldi”, who may not have the greatest assortment, but low prices and a high reachability. Secondly, “Rewe”, who has a decent assortment and pricing and yet high reachability, paired with good quality and service. Lastly, “Alnatura”, who may have the highest potential in terms of a unique selling proposition (USP), as it has a large assortment, with a perceived fair price-quality ratio and high reachability. It may therefore have the potential to expand its unique positioning by e.g. further stressing the fair quality-price ratio, paired with exceptional service and reachability. It is crucial to mention that by analyzing each of the market incumbents’ marketing strategy to position itself based on product benefits, it can be derived that all

seem to stress the “natural” and “sustainable” parts of their products, serving the same niche of customers who buy organics due to its environmental impact. For further details about how each competitor communicates its product benefits, see *appendix 9.4*.

#### **4. Organic supermarket chain Alnatura**

##### **4.1 Figures**

“Alnatura Produktions und Handels GmbH” (“Alnatura production and trade LLC”), founded 1984 by Prof. Dr. Götz E. Rehn, has its core business in the wholesale and retail of organic products, especially groceries and textiles. It has 2,320 employees, 145 apprentices and a current market share for organics in Germany of 6.9% (Euromonitor, 2014). Its mission is to offer the “best organic quality in esthetic impression to a reasonable price”, which should be achieved by its vision “to be meaningful for human and earth”. Its core value is to manufacture “environmental friendly” products.

##### **4.1.1 Generic strategy**

Derived from studying sources such as its website, it can be concluded that Alnatura’s strategy is based on niche cost leadership and differentiation. It mainly serves the consumer demand of organic F&Bs, which is, as deducted earlier, still a niche market with relatively low demand compared to the overall food industry. The firm puts a strong emphasis on product quality, branding, design, service and the development of extended product lines and new products. Following Michael Porters’ perspective that the key in differentiation is to “create a unique value perceived by the consumer, beyond simply offering a low price”, it stresses a tangible differentiation through distinct product characteristics such as the product quality, packaging and the store’s ambiance (color, logo, etc.), as well as intangible differentiation such as a the organic and sustainable brand image. However, it also seems to follow a cost leadership strategy. Alnatura, as a relatively large company, can leverage on economies of scale

and learning, standardized service techniques and relative low supplier costs due to long-term contracts, being able to convert low costs to fair prices for their customers. This is aligned with its mission to provide “best organic quality to a reasonable price”.

#### **4.1.2 Branches/ Locations**

According to the latest dates and facts that the company provides (2014), it now has 92 branches in 42 cities in Germany with an average selling space of 550 sq m and an higher store concentration in southern Germany (see *appendix 10.1*). In addition, it has trade partners such as drugstores and other food retailers with 3,750 branches in 14 countries. Until 2006, there were only 25 supermarkets, but with the fast growing demand for organics, the number of stores rose nearly fourfold in less than 10 years. Recently (April 2015), it also launched an online store<sup>7</sup>, where it sells around 900 organic products, mainly F&Bs and nature cosmetics, within Germany and Austria.

#### **4.1.3 Current marketing strategies on variables:**

##### **4.1.3.1 Price**

Alnatura states as its mission that it tries to act after on the precept “best quality at reasonable prices”, although it stresses that the quality has to be assured first. After the quality, it is the company’s task to arrange the processes as economically as possible in order to offer its clients the lowest possible prices. It is the firm’s goal to assure suppliers and clients a fair product value via quality and price. When comparing the actual market prices, Alnatura often seems to have the same price level as organic products from normal supermarkets and sometimes even from discounters. Compared to other exclusively organic retailers, it is definitely the price leader, see *appendix 9.3*.

##### **4.1.3.2 Products**

Alnatura currently offers over 6,000 products of their “organic full assortment”, ranging from preferable regionally cultivated foods, to nature cosmetics, children

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<sup>7</sup> <http://www.alnatura-shop.de/>

textiles and organic cotton. Of those products, they offer 1,160 organic groceries under their own brand name “Alnatura”, including milk and dairy products, child nourishment, bread and other grain products, treats, spreads, frozen foods, fresh meat, fruits and vegetables (see *appendix 10.2*). Their product assortment is as broad as a normal supermarket’s and has a distinctive depth for most of their product lines. Furthermore, the products seem to be fully consistent to the whole store concept of being “organic” and “natural”. However, in their trade partners stores (e.g. drugstore “dm”), they only offer packaged products due to the drug stores’ product concept.

#### 4.1.3.3 Sourcing

According to their sustainability report of 2013/14, they work together with 120 manufacturers, with 75% of those situated in Germany and the rest in neighboring countries. Nearly all of them (96%) are rather small or medium sized farmers. Once a year, all suppliers are examined by an external organic control to identify if they still fulfill all EU-law requirements in the production process. Besides that, Alnatura states that they work together closely with their suppliers. On the one side, they incorporate a third party control, which analyses and ensures the product quality and on the other side, Alnatura meets up every year with its suppliers in order to discuss and develop new products and expected product needs, and to negotiate purchase prices.

#### 4.1.3.4 Communication and promotion

With their vision and slogan “Alnatura- meaningful for human and earth”, the company presents itself as an organic brand, which strongly focuses on its core value “to create sustainability for people and the environment”. Their activities appear to be aligned with their sustainable business concept; from the choice of the suppliers and long-term partnerships affecting the production process, e.g. by protecting the environment and stressing animal welfare, as well as the benefits they offer consumers

by establishing an efficient economy for their future. The logo expresses the sustainable earth concept, displaying a light green bright landscape including some fields and the sun (*appendix 10.3*), and is omnipresent in their stores and on their products.

In their stores, the customers can learn more about their business concept through outlying flyers and brochures. Additionally, their webpage is quite informative. They offer subscriptions to newsletters, and maintain a presence on social media platforms such as YouTube, Instagram and Facebook, where they appear to be very active. For instance on their Facebook page, they post not only company and product information, but also cooking recipes, upcoming events, news, etc. Additionally, they place small advertisements in local newspapers or TV magazines. Lastly, Alnatura provides weekly discount offers, such as selling “the cheese of the month” for a lower price than usually (*appendix 10.4*) and offers product trials in their stores.

#### **4.1.4 Current customer perception**

As Alnatura’s intended strategies do not necessarily imply that customers perceive these strategies accordingly, a part of the conducted survey concentrated on the participants’ perception of Alnatura in terms of awareness, pricing, communication and further associations. The results show that nearly 90% of the survey participants have at least heard of the brand/ company, although the majority does not know its actual concept. Some people are not even aware that Alnatura is its own brand with own stores, thinking it is instead simply a product of a drugstore such as “dm”. The analysis further revealed that the price perception differs between non- and organic buyers. While many organic consumers perceive Alnatura’s prices as fair given its quality, or even cheap compared to other organics, the non-organic buyers still see it as “being expensive”. Additionally, most of the associations with “Alnatura” (over 50% of the cases) are related to “being healthy”, only followed by “environmental friendly”,



making it questionable if Alnatura's communication strategy of stressing "environmental friendliness" is actually grasped accordingly by the consumer.

Moreover, Alnatura, as well as the other organic market incumbents, do not seem to create much awareness around their organic offers, especially not through advertisement. While over 44% of the survey participants cannot remember having seen an advertisement about organic products, the existing ads seem to rather be observed as special offers or discounts in stores, at product trials in supermarkets or in newspaper announcements. Alnatura's current promotions seem to reach its current customers, but lack a broader awareness, such as for non-organic buyers.

#### **4.2 Perspective and potential**

Throughout the analysis, evidence was collected that the demand of organic products in Germany thus far has constantly increased and, based on its current industry life cycle stage, has a vast potential to further grow in the future. Moreover, the expected consumer expenditure income increase within the next years could serve as an aid to overcome the higher pricing barrier for organic products, and the growing scarcity of resources may also be a trigger to consume more sustainable manufactured products. The challenge is therefore to find a way to accelerate the demand rise in order to benefit from it. When looking at the US, the organic growth seems to be actuated by the public pressure on the government for more stringent production requirements, increasing the organic awareness and demand. However, in Germany, since the government and public opinion is more aligned, it is unlikely that controversial debates serve as a trigger for an augmented demand on organic F&Bs. Instead, companies may have the opportunity to serve as an accelerator by applying appropriate strategies, taking into consideration the underlying findings, to actively push the demand in the future. Alnatura, as an organic supermarket, is already quite established in the market and with

its current USP and steady growth, provides the capability to become a leader in shaping the demand for organic F&Bs. As the current demand for organic F&Bs is only around 4%, there must clearly be a big potential target group that has not *yet* been served, but could be, by slightly adjusting and improving Alnatura's current strategies.

#### 4.2.1 SWOT analysis/ TOWS strategies

In the following, a SWOT analysis is used to summarize the main paper findings in terms of strengths, opportunities, weaknesses and threats for Alnatura and to determine the TOWS strategies that can be used in order to build upon the strengths and opportunities and to monitor and tackle the weaknesses and threats:

SWOT/ TOWS	Strengths- S	Weaknesses- W
	<ul style="list-style-type: none"> <li>- USP compared to rivals (huge product assortment, good reachability, low prices)</li> <li>- Good brand management towards current customer base</li> <li>- New online-store (max. reachability)</li> </ul>	<ul style="list-style-type: none"> <li>- Dependency on suppliers in terms of product quality (product recalls occur) → Image could suffer</li> <li>- Focused on frequent organic buyers as current target</li> </ul>
Opportunities- O	SO- Listen to consumer needs	WO- Maximize awareness
<ul style="list-style-type: none"> <li>- Growing demand for organic F&amp;Bs</li> <li>- New consumer trends that can be served in the future (e.g. healthy lifestyle)</li> </ul>	<ul style="list-style-type: none"> <li>- Create appropriate strategies to target unfulfilled customer needs in organic purchases (e.g. emphasize "health aspects" in products) in order to broaden current customer base</li> </ul>	<ul style="list-style-type: none"> <li>- Expand organic awareness to target non-low organic buyers e.g. by appropriate ads, appealing to them based on survey findings and trends</li> </ul>
Threats- T	ST- Expand USP	WT- Monitor & Innovate
<ul style="list-style-type: none"> <li>- Not enough suppliers in the market to sustain growing demand</li> <li>- Competition (e.g. discounter) approach A's USP, e.g. by expanding product assortment</li> <li>- Drugstore partner launch own organic products</li> </ul>	<ul style="list-style-type: none"> <li>- Extend unique positioning in market by concentrating on fostering key variables, e.g. by expanding reachability and own store presence → Communicate accordingly in order to enhance brand image, especially by providing perceived benefits for non-organic buyers</li> </ul>	<ul style="list-style-type: none"> <li>- Work on supplier relationship by constantly improving product quality</li> <li>- Innovating new techniques and products to ensure quality and broaden product assortment</li> </ul>

Based on these TOWS strategies and implications of the other observations and findings from the survey and research papers, sufficient material was collected in order to draw the final conclusions for this work, namely the strategies which Alnatura could use in order to become a pioneer in shaping the organic demand in Germany.

## **5. Strategies to shape the demand in Germany and grow Alnatura's market share**

### **5.1 Marketing strategies**

*Educate the population about the EU-organic certification and definition-* In order to push the demand for both organic and non-organic buyers, the first crucial step is to better educate them about the existence of a EU-certification, the definition of organic and its accompanied benefits. As mentioned in the beginning, both groups are currently not very well educated about their existence or meaning, but throughout the survey it was revealed that 70% of all participants would certainly want a uniform certification. Additionally, if both, organic and non-organic, buyers would be aware of a uniform EU-certification and its underlying regulations, it would drastically increase their likelihood of buying organics or intensifying the purchase.

*Foster brand perception and target potential buyers according to their needs –* Derived from the current customer perspective, Alnatura should further educate consumers about their existence and business concept. By the creation of specific campaigns and an augmented use of advertisement, Alnatura's awareness would not only increase, but also that of organic products in general, which would help to shape the overall demand. Besides that, the current marketing strategies seem to be catered to its already existing customer base and potential organic buyers, in order to engage and motivate them, and therefore lacks the ability to create brand awareness and a relationship for non-buyers. Thus, those strategies should be adjusted accordingly in order to attract more non-buyers. For instance, attention should be paid to the gender and marital status of the buyers' profile, as it seems to influence the purchasing frequency. Some findings imply that married people and women seem to purchase organic (Alnatura) F&Bs more often than single people and men, so that Alnatura could appeal more to the "singles" and "men". Additionally, the trend of parenthood at older

age stages with more money to spend, an aging population and changes in eating habit can be used to develop strategies to particularly target these arising customer needs.

***Use “social environment influence” to enhance sales and establish a deeper brand connection with customers-*** Within the survey outcome, it was revealed that there is a moderate, positive correlation between those people whose “friends purchase organic products” and the respondents positive answer concerning “considering to intensify organic purchases in the future”. Additionally, there is a positive correlation between the organic buying frequency of the respondents and their “direct environment stressing organic purchases”. This reveals the consumer’s “social environment” is an important influencing factor for its buying decisions, possibly linked to the need for social recognition. Therefore, another strategy could be for Alnatura to recruit some customers as “brand ambassadors”, who endorse “Alnatura” and “organic products” and thus foster a positive image within their environment.

***Expand the unique selling proposition-*** Currently, Alnatura may differentiate itself from the competition by its key variables positioning, but those variables could be approached in the future. Therefore, they should extend their USP and try to become inimitable, e.g. by concentrating on their R&D in order to create and innovate new products and by communicating more product benefits. Currently, Alnatura and its competition seem to cater more to altruistic buying motives, related to environmental protection. However, the findings have revealed that consumers choose egoistic buying motives, such as “it is healthy” and “tastes good”, before altruistic motives, such as “protects the environment”. Hence, by incorporating this benefit in the marketing strategies, Alnatura could find itself a differentiator within organic product benefits and would also compete with the current market substitutes’ health benefits of “light” or

“natural” products. The growing obesity problems in Germany and the lower perceived health risks of non-organic buyers could be tackled by educating the consumer about the importance of their “health”, by stressing the benefits of organic F&Bs compared to the risks of conventional F&Bs (e.g. pesticides) and thus creating further buying incentives.

## **5.2 Marketing tactics**

In order to implement the marketing strategies and therefore to increase Alnatura’s customer base, its revenues and the overall organic demand, appropriate tactics should be developed and executed, which will be described as follows:

**Product-** As described in the TOWS matrix, Alnatura’s positioning advantage of a broad product assortment should be further ensured by the use of its R&D to create new products and innovative techniques. Special efforts should be made to spot unfulfilled customer needs and tailor the products respectively to attract a certain target. As observed in this work, more products for singles could be created, e.g. smaller organic butter packages, or products customized for men, such as “organic power energy bars”, with a suitable packaging (e.g. black) and description (e.g. “the energy bar for vigorous men”). Products should also be customized to older generations and to older parents who have more money to spend for themselves or to indulge their kids. Moreover, as one of the trends revealed that the eating habits nowadays are heading in the direction of “eating out” and “quick meals”, Alnatura could serve this trend by incorporating “fresh ready meals” in their product assortment to take away, either in the refrigerated section or as a new one with warm and cold meals.

**Place-** Alnatura is currently opening new stores, including the online store, to improve its presence as its own supermarket chain and further expand its positioning variable “reachability”. However, it could also improve its in-store product distribution in order to target some consumer needs. For example, as “assembly cooking” is a rising

trend, the store could have a special corner where consumers can choose from some “baskets of the week”, each composed of chosen products with recipe suggestions to cook a meal. For instance, a basket could be composed of organic spaghetti, basil tomato sauce, some fresh herbs, the recipe for how to make such a dish and a power energy bar as dessert. By advertising it as “the quickly made power food for the independent man”, it could appeal to men with limited cooking skills, but that wish to show independence. Various suggestions to bundle products could be made to appeal to different targets, with weekly changing suggestions.

***Positioning and communication-*** In order to further differentiate itself from the competition, Alnatura should stress the “health” benefits of its products. For instance, the slogan on products could incorporate both the health and environmental friendliness, e.g. by “healthy for you, good for the earth”. Throughout their communication strategy, they should try to emphasize the indicators related to the “health” and “environmental” benefits. The survey has revealed that those benefits are mostly related to product descriptions including “free from contaminants”, “produced without pesticides”, “genetically non-modified” and “assuring animal welfare” and should be used in the communication to attract both the organic and non-organic buyer.

***Promotion-*** The company should use additional medias and places, such as billboards in public, advertisement in radio and TV in order to maximize the reachability of its potential target audience. This needs to be paired with a good fit between the chosen media tools and the communication strategy. E.g. the non-low organic buyer could be reached via the broad tool TV and be provided with detailed information/ education about the benefits of Alnatura and organic products to be willing to try to overcome the purchasing barrier. Similarly, when using Facebook as an ad tool,

it is possible to customize ads so that they appear only to a chosen audience (e.g. men) with an appropriate content (easy cooking recipes). Further, more product trials, discounts and promotion must be offered in order to move on from the “innovator and early adopter” to the “early and late majority” in the organic product lifecycle. By facilitating the product trial, familiarization with the brand and its benefits may encourage the product adoption. However, to reach the current non-low buyers, some product trials should be offered outside the stores, e.g. on events related to the brands values, such as “health conventions” or “sport festivals”. Co-promotion with other brands with similar values should also be considered to raise the awareness, e.g. a sustainable sport clothes retailer partner could give its customers a discount on chosen products from Alnatura, when buying certain products in the shop and vice versa.

**Campaigns-** A German wide education campaign of the EU-organic certification and definition could be conducted by Alnatura in association with their existing or new suitable partners, *see appendix 10.5*. When doing so, there is a need to display the logo and get people to relate it to the actual definition of the certification and organic F&Bs. Additionally, people should be educated about the benefits of such food, especially in terms of “decreased health risk in the long-run” when switching to organic foods and saving medical costs later. Drawing on earlier conclusions, the older age groups are less aware than the younger ones, so they specifically need the education. For instance, an idea could be to work together with some big companies and their cafeterias/canteens to reach the older, already working, groups. The canteens could offer a “taste menu” or something similar, made out of “EU certified” Alnatura organics, while distributing brochures that would explain the definition and benefits. Additionally, Alnatura could cooperate with associations or an EU body to organize

“certification education days”, where informative flyers could be distributed in cities, or an informative documentary could be recorded and nationally broadcasted. Alnatura itself could also organize informative events alone, to make consumers aware of the existing EU-certification (e.g. through the use of facebook as media) as well as Alnatura and its brand concept (e.g. stressing that it is its own brand and not one of a drugstore).

**Price-** In order for the non-and low frequent buyers to also perceive the pricing strategy as “affordable”, Alnatura’s products have to provide a positive value, the consumer surplus, by offering perceived benefits that are greater than the price. Therefore, if the other strategies are well implemented, customers will be provided with desired benefits (e.g. “trust in certification”, “health”) that are more than worth the price (e.g. as it could save medical costs later) and could not be fulfilled by cheaper products.

**Brand activation-** In order to stimulate the consumers’ interest in Alnatura and to establish brand connection and commitment, an efficient tool is the use of “social media” such as Facebook. By creating online challenges and events around the brand, users can serve as brand ambassadors who foster a positive word of mouth about Alnatura, positively influence the buying decisions and brand image in their environment. Alnatura already provides the opportunity for its customers to participate in lotteries to win some products, however, it still needs to create more buzz around its brand by engaging consumers to share things (e.g. through posts) about Alnatura. For instance, they could create a challenge for some chosen heavy Facebook users who are Alnatura fans, with a vast audience, who would get sponsored to “live one week using only Alnatura products” and in return have to share this experience on their page in order to create buzz and brand engagement.



## 6. Risk and feasibility analysis

In order to evaluate how likely it will be for Alnatura to successfully implement the recommended strategies, potential emerging risks and feasibility issues related to Alnatura's resources, the environment and competitive reaction are scrutinized.

**Risks-** The most plausible risks considered to occur within the strategy implementation could be related to the shift in the product benefit communication, the perceived pricing strategy and the creation of new products for a particular target need. When Alnatura raises the health awareness factor in order to appeal to the "health benefits" when consuming its products, this strategy could, instead of pushing the organic demand, just increase the demand for substitutes such as "natural" and "light" products. In that case, they should counteract it by further educating consumers about the health benefits that only organic F&Bs can achieve, e.g. by emphasizing the health trap of "light" products, which may contain less fat, but add more sugar, which could serve as a trigger for diabetes in the long-run. Also, the new products could be perceived as not relevant by the potential target or could even backfire. It is therefore advisable to test the products, to monitor the perceptions of customers and in the worst case, to delist the products. Within the pricing strategy, Alnatura needs to assure that the communication of the intended "affordable" is not confused with a negative association of "cheap" or "price discounted", where consumers question the quality of such organic F&Bs. In such a case, they need to rethink their communication and adjust it.

**Feasibility-** On the one side, Alnatura is still too weak on the specialized asset *location*, which is important in order to expand the reachability and to create more awareness about the brand and its concept. Even though it already started expanding its presence, it will take some time until consumers familiarize and relate to Alnatura as its own brand/store. The accomplishment of this strategic intention could further be

delayed if the perceived benefits are not enough for consumers to overcome the online-shop downside (minimum order value of 25€, postal charges of 5€ and delivery time of 2-3days<sup>8</sup>). Even with further awareness campaigns (e.g. advertising the new online store), it will take time until the USP reaches the intended audience. On the other side, as shown throughout the report, Alnatura seems to have strong competences in its *R&D*, *product development*, *brand management* as well as a good architecture of relationships in *strategic alliances* with sustainable partners and *solid relationships* with its *suppliers*, which are all crucial resources to directly implement most of the strategies. Further, the financial situation looks promising to support the required financials in terms of increased R&D costs, campaign costs, HR expenses, promotion expenditures etc. Derived from their last published financial report (extracts see *appendix 10.6*), the revenue in 2012/13 was nearly 595€ million (m), with an increase of around 15% year-on-year, a net profit of 9.5€m, of which 2€m were distributed, a free cash flow of nearly 17€m and an equity value of 89€m. It is also stated that it was possible to finance nearly all of the investments (21€m) with the cash flow, that no bank loans exist (as in the years before) and that for the following years, a positive annual net profit is expected. Alnatura's overall financial strength will aid in implementing the recommended strategies, and required additional investments are expected to be recouped by the additional sales from the increased market share.

Lastly, the competition needs to be considered as they could prevent Alnatura from pursuing the recommended strategies. It is possible that the competition tries to copy the strategies and approach Alnatura's positioning, for instance to also position their products as more healthy or to imitate some of their products. However, the

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<sup>8</sup> <http://www.alnatura-shop.de/g/cms/alnatura+service+02c+versand.jsf>

retaliation is not expected to be very strong since other companies will likely benefit from some of Alnatura's strategies anyways as they aim to boost the overall demand for organic F&Bs, e.g. through the certification education campaigns. As mentioned before, there is currently enough market share to be distributed without entering in price wars with competitors, which may limit rivalry, at least in the short-run for the next years. Nevertheless, Alnatura needs to constantly monitor its strategy and financials, the environment and competition as well as market/consumer trends in order to re-adjust the strategy, if needed. By placing higher importance on the "strategic management" and the given recommendations, the conclusion of the paper is that Alnatura has the potential to increase its market share and foster the overall organic F&B demand in Germany within the next five years.

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